

*James*OLL 83-2073/6
21 September 1983

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MEMORANDUM FOR THE RECORD

SUBJECT: House Committee on Post Office and Civil Service
Hearing on the Impact of Dual Retirement System
Contributions for Federal Employees Hired On or
After 1 January 1984

REFERENCE: MFR OLL 83-2073/2 dated 13 September 1983,
Senate Committee on Governmental Affairs
Hearing on Retirement

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1. The House Committee on Post Office and Civil Service, chaired by Representative William D. Ford (D., MI), conducted the subject hearing on 20 September 1983. [redacted] Deputy Director of Personnel for Special Programs, and I, attended. The hearing was essentially a replay of the 13 September hearing held by Senator Ted Stevens (R., AL) and his Governmental Affairs Subcommittee. The witness list, together with all prepared testimony, which was presented essentially as prepared, was nearly identical to that of the earlier Senate hearing.

2. The Comptroller General briefed on his 31 August 1983 Study Report and recommended dual retirement system coverage (Civil Service and Social Security) at a cost comparable to current Civil Service retirement costs (withholdings) for the interim period between 1 January 1984 and enactment of a new supplemental retirement program. Federal employee union associations continued to argue that, until a new supplemental retirement program is enacted and in place, all Federal employees must continue to be participants of the Civil Service Retirement and Disability System (CSRDS) regardless of the 1 January 1984 Social Security legislation. They also argue that such coverage should be equal in cost to that incurred by current Federal employees. Mr. Donald J. Devine, Director of the Office of Personnel Management, continued to press for Social Security coverage only, for all employees hired 1 January 1984 or later. He was adamant in opposing even temporary CSRDS coverage for new employees just during the interim period.

3. Chairman Ford indicated that his Committee would not be authoring legislation on this subject but rather would merely react to one or more bills authored in the Senate. This Committee is, I think, more receptive to the employee point-of-view than the Administration's, although I sense that it would readily support the Stevens' Bill were it to be passed by the Senate.

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Attachments
As stated

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House of Representatives

Committee on Post Office and Civil Service

Washington, D.C. 20515

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COMMITTEE ON POST OFFICE AND CIVIL SERVICE COMMITTEE

September 20, 1983

WITNESS LIST

Charles A. Bowsher, Comptroller General
General Accounting Office

Donald J. Devine, Director
Office of Personnel Management

Jerry Shaw, Chairman
Federal Employees' Coordinating Committee

George Gould, Chairman of the Legislative Committee,
and Kim Parker, Secretary
FAIR

Panel of Federal Employee Organizations

1. Lud Andolsek, President
National Association of Retired Federal Employees
2. Robert Tobias, President
National Treasury Employees' Union
3. John Sturdivant, Executive Vice President
American Federation of Government Employees
4. David Gusky, Legislative Director
National Federation of Federal Employees

Panel of Postal Employee Organizations

1. Frank Connors, Vice President, accompanied by
George Gould, Assistant to the President
National Association of Letter Carriers
2. Patrick Nilan, Director of Legislation
American Postal Workers Union

SEPTEMBER 20, 1983

OPENING REMARKS OF CHAIRMAN WILLIAM D. FORD
POST OFFICE AND CIVIL SERVICE COMMITTEE

AS A RESULT OF A PROVISION OF LAST YEAR'S SOCIAL SECURITY RESCUE LAW, NEW CIVIL SERVICE EMPLOYEES WILL BE REQUIRED TEMPORARILY TO CONTRIBUTE TO TWO PENSION SYSTEMS AFTER NEXT JANUARY.

UNDER THE LAW, THESE NEW WORKERS WILL BE FORCED TO CONTRIBUTE 7 PERCENT OF THEIR SALARIES TO THE CIVIL SERVICE RETIREMENT SYSTEM AND ANOTHER 7 PERCENT TO THE SOCIAL SECURITY SYSTEM, INCLUDING THE 1.3 PERCENT MEDICARE TAX THAT ALL FEDERAL EMPLOYEES MUST PAY.

THE COMMITTEE MEETS TODAY TO HEAR TESTIMONY ON THE PROJECTED IMPACT OF THESE DUAL CONTRIBUTIONS.

AT THE OUTSET, I WANT TO MAKE IT VERY CLEAR THAT THE DUAL CONTRIBUTION IS ONLY A TEMPORARY MEASURE UNTIL A SUPPLEMENTAL RETIREMENT PLAN FOR NEW EMPLOYEES CAN BE WORKED OUT. NEVERTHELESS, MEMBERS OF THE COMMITTEE SHOULD BE FULLY AWARE OF ALL THE NEGATIVE ASPECTS WHEN PROVISIONS OF THE SOCIAL SECURITY AMENDMENTS TAKE EFFECT EARLY NEXT YEAR.

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THE COMMITTEE SOME TIME AGO ASKED THE GENERAL ACCOUNTING OFFICE TO ANALYZE THE POTENTIAL EFFECTS OF THE NEW LAW. THE REPORT WAS RECEIVED AUGUST 31 AND HAS BEEN DISTRIBUTED TO COMMITTEE MEMBERS.

ONE OF THE GAO CONCLUSIONS DESERVES SERIOUS CONSIDERATION BY THIS COMMITTEE. THIS IS THE FINDING THAT THE DUAL CONTRIBUTION REQUIREMENT COULD MAKE IT MORE DIFFICULT TO RECRUIT AND RETAIN QUALIFIED INDIVIDUALS FOR THE FEDERAL SERVICE, PARTICULARLY IN SPECIAL PAY CATEGORIES, SINCE THE DUAL CONTRIBUTIONS WILL CAUSE A SUBSTANTIAL REDUCTION IN EMPLOYEES' TAKE-HOME PAY.

THIS IS OF SPECIAL CONCERN SINCE THE FEDERAL GOVERNMENT ALREADY IS EXPERIENCING PROBLEMS IN COMPETING WITH THE PRIVATE SECTOR FOR THE BEST QUALIFIED INDIVIDUALS.

I WOULD LIKE TO NOTE THAT EARLIER THIS YEAR I INTRODUCED A BILL (H.R. 3371) SPECIFICALLY TO ADDRESS THIS PROBLEM. IT WOULD GIVE NEW GOVERNMENT WORKERS A DOLLAR-FOR-DOLLAR TAX CREDIT FOR CONTRIBUTIONS TO THE CIVIL SERVICE RETIREMENT SYSTEM UNTIL A SUPPLEMENTAL PLAN CAN BE DEVELOPED.

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I ALSO WANT TO REMIND COMMITTEE MEMBERS THAT WE HAVE ENTERED INTO A CONTRACT WITH HAY ASSOCIATES, A PRESTIGIOUS CONSULTING FIRM IN THIS AREA OF EXPERTISE, TO ASSIST THE COMMITTEE IN DEVELOPING A SUPPLEMENTAL PROGRAM.

WE WANT TO MOVE ON THIS PLAN AS QUICKLY AS POSSIBLE. AT THE SAME TIME, HOWEVER, WE WANT TO ENSURE THAT WHEN THE PLAN IS FINALLY ENACTED INTO LAW IT WILL BE FAIR, FISCALLY SOUND AND DURABLE. I NEED NOT REMIND ANY OF YOU ABOUT HOW COMPLEX THIS PROBLEM IS.

WE ALSO HAVE AN OBLIGATION TO ENSURE THOSE COVERED UNDER THE CIVIL SERVICE RETIREMENT SYSTEM THAT THEIR PENSIONS WILL BE PROTECTED.

I AM CONFIDENT THAT AFTER HEARING TODAY'S WITNESSES WE WILL ALL HAVE A BETTER UNDERSTANDING OF WHAT IS AHEAD.

WITH THAT, I BELIEVE YOU, MR. BOWSER, ARE FIRST UP AT BAT. YOU MAY PROCEED IN WHATEVER MANNER YOU CHOOSE.

U.S. GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
Expected at 10:00 a.m.
Tuesday, September 20, 1983

STATEMENT OF CHARLES A. BOWSHER
COMPTROLLER GENERAL OF THE UNITED STATES

BEFORE THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES

ON

RETIREMENT CONTRIBUTION REQUIREMENTS
FOR NEW FEDERAL EMPLOYEES

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear today to present our views on the effects of temporarily requiring new Federal employees to contribute to both social security and the civil service retirement system. We are pleased that your committee has undertaken these hearings to remedy this situation. We have been concerned that the extra contributions would place the Government at a competitive disadvantage in recruiting and retaining employees because they would result in a substantial reduction in take-home pay. While employees in the private sector must pay social security taxes, few are required to contribute to their employer-sponsored retirement programs.

Most employees in the civil service system must pay 7 percent of their salary into the retirement fund. Some participants contribute even higher amounts, and all employees pay an

additional 1.3-percent medicare tax. Beginning in January 1984, newly hired Federal employees and former employees rehired after a break in service of 1 year or more will also be covered by social security. Therefore, in addition to retirement fund contributions and the medicare tax, they will be required to pay social security taxes of 5.4 percent in 1984 and 5.7 percent in 1985. While medicare and social security taxes currently apply only to the first \$35,700 of annual salary, nearly all new employees will receive salaries below this level. Thus, they will be contributing a total of about 14 percent of their salary to these programs until a new retirement system to supplement social security is established. It is anticipated that the new system will not be in place until sometime in 1985.

We issued a letter report to the Senate Committee on Governmental Affairs on August 31, 1983, which highlights our concerns and discusses some options to ameliorate the problem. I would like to submit a copy of that report for the record and summarize the options.

It is difficult to predict at this time what a new supplemental retirement system will provide or how it will be implemented. Presumably, it will retroactively cover all service by new employees after January 1, 1984. We also assume that any contributions new employees make to the civil service system, during the period of temporary coverage, that are greater than the amount required by the new system would be refunded.

The Office of Personnel Management (OPM) estimates that by the end of 1985 a total of 385,000 Federal employees could be

affected by the dual contribution requirement. OPM estimates these employees will contribute about \$470 million to the civil service retirement fund during this 2-year period, but only a few of them are expected to receive any civil service benefits from their contributions. This is because new employees must have 5 years of civilian service to be eligible for disability benefits and must have been employed at least 18 months before their survivors could receive death benefits. Social security requires coverage of up to 5 years, depending on the employee's age, for disability benefits and 18 months for death benefits.

Thus, none of the new employees would be eligible for disability benefits from the civil service system and only those hired early in 1984 would be eligible for civil service death benefits. Rehired employees could be eligible for more benefits because of their prior Federal service. Overall, OPM estimates that civil service disability and death benefits will be paid in 750 instances, and such payments are estimated to be about \$500,000 in 1984 and \$2,900,000 in 1985.

The extra contributions to be required of new employees will cause a substantial reduction in their take-home pay. This could adversely affect the Government's recruiting and retention efforts. Officials in the five departments and agencies we visited were very concerned that the higher retirement contributions would place the Government at a competitive disadvantage especially in those occupations where the Government already has to pay special salary rates to compete with the private sector. In 1982, agencies were paying about \$93 million annually in

salary supplements over and above regular rates to 34,300 such employees.

In view of the limited benefits that employees will derive from temporarily contributing to the civil service system and the problems the increased contributions may cause, we evaluated several alternatives that could resolve this situation. These alternatives were:

1. Provide a temporary tax credit to Federal employees covered by the social security system for the amount of their contribution to the civil service system.
2. Provide no civil service coverage; therefore, no contributions to the civil service system would be required.
3. Provide temporary civil service coverage without requiring employee contributions but with a 100-percent social security offset against any civil service benefits received.
4. Provide for voluntary temporary participation in the civil service system by new employees.

Under each of these alternatives, employees' service credits would be transferred to the new supplemental system when it is established.

I would now like to discuss the alternatives in more detail along with the advantages and disadvantages of each one.

Tax credit

One way to alleviate the impact of greater retirement contributions would be to provide the new employees an income tax credit for their civil service contributions during the 2-year period. Bills have been introduced in the House of Representa-

tives (H.R. 3371) and the Senate (S. 1522) to permit such credits. However, timing of the tax credit could be a disadvantage, inasmuch as the employees may not benefit from the credit until the following year when they file their tax returns.

This alternative would continue full employee and employer contributions to the civil service trust fund. Employees would have greater disability and death benefits than those hired prior to 1984 because of the dual coverage, but would have contributed less because of the tax credit. Since the proposed bills do not change the refund provisions of the civil service system, employees could receive not only the tax credit but also a refund of their contributions if they later left Government service.

No civil service coverage

Under this alternative, the social security program would provide disability and survivor benefit coverage for new employees but, depending on individual circumstances, benefits could be more or less than civil service benefits. No employee or employer contributions to the civil service system would be required.

This alternative avoids any duplicated benefits and the potential administrative burden of refunding employee contributions if a noncontributory supplemental plan is later established or the contribution rate under the new plan is lower.

Recruiting may be more difficult than under other alternatives because of the uncertainty about the level of future retirement benefits. Also, this alternative would generally provide lower disability and death benefits, especially for rehired

employees who might otherwise qualify for civil service benefits because of prior Federal service but who may not have sufficient service to qualify for social security benefits.

Social security offset

This alternative would provide employees coverage under both systems, but civil service benefits would be reduced by the amount of any benefits received from social security. While employee contributions to the civil service system would not be required, agencies would continue to make civil service contributions which would be used to finance civil service benefits for these employees. (//)

The alternative assures disability and death benefit coverage comparable to that provided employees hired before 1984, but at less cost to new employees. However, it creates some administrative burden in computing the social security offset. It does avoid the potential administrative burden of refunding employee contributions if a noncontributory supplemental plan is later established or the contribution rate under the new plan is lower.

Voluntary participation

While all new employees will have social security coverage, this alternative would permit those employees who desired greater coverage to participate in the civil service system. Participating employees and their agencies would each be required to make the regular contributions to the civil service system.

This alternative would give participating employees more coverage than that provided employees hired prior to 1984. While it would give the individual the responsibility for determining the adequacy of coverage, it would be very costly for the limited additional coverage most employees would receive.

In summary, Mr. Chairman, unless the current law is changed, new employees will contribute almost \$500 million to the civil service system, but only a very small number will receive any benefits from those contributions before the new system is established. Moreover, the dual contributions will reduce employees' take-home pay making recruiting and retention of quality individuals much more difficult. In some cases, special pay rates might have to be increased or paid to more employees. Resolution of this problem prior to January 1, 1984, would relieve new employees from the burden of contributing to both social security and the civil service system.

I would be pleased to answer any questions you may have.

STATEMENT OF
HONORABLE DONALD J. DEVINE
DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

BEFORE THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE
UNITED STATES HOUSE OF REPRESENTATIVES

ON

CIVIL SERVICE RETIREMENT COVERAGE FOR FEDERAL EMPLOYEES
WHO WILL BECOME COVERED BY SOCIAL SECURITY AFTER DECEMBER 31, 1983

SEPTEMBER 20, 1983

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I APPRECIATE THE OPPORTUNITY TO APPEAR THIS MORNING TO DISCUSS THE PROBLEM OF DOUBLE COVERAGE OF NEW FEDERAL EMPLOYEES UNDER BOTH THE SOCIAL SECURITY AND CIVIL SERVICE RETIREMENT SYSTEMS. I AM ACCOMPANIED BY JAMES MORRISON, OUR ASSOCIATE DIRECTOR FOR COMPENSATION, AND JEAN BARBER, ASSISTANT DIRECTOR FOR FINANCIAL CONTROL AND MANAGEMENT.

FEDERAL EMPLOYEES FIRST HIRED AFTER DECEMBER 31, 1983, AND CERTAIN CATEGORIES OF EMPLOYEES HIRED BY THE GOVERNMENT BEFORE THAT DATE, WILL BE COVERED UNDER SOCIAL SECURITY AS A RESULT OF THE 1983 SOCIAL SECURITY AMENDMENTS. WHEN THOSE AMENDMENTS WERE ENACTED, IT WAS RECOGNIZED BY ALL INVOLVED THAT THE CONGRESS WOULD HAVE TO ESTABLISH A NEW RETIREMENT SYSTEM FOR THOSE EMPLOYEES IN ORDER TO SUPPLEMENT THE SOCIAL SECURITY BENEFITS THAT THEY WILL BE EARNING. LEGISLATION WILL NOT BE ENACTED BY JANUARY TO ESTABLISH A NEW SUPPLEMENTAL RETIREMENT PLAN. THEREFORE, THESE EMPLOYEES WILL END UP BEING COVERED UNDER AND PAYING FOR BOTH THE VERY EXPENSIVE EXISTING CIVIL SERVICE

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RETIREMENT SYSTEM AND SOCIAL SECURITY. AS A RESULT, THEY WILL HAVE TO PAY A TOTAL OF 14 PERCENT OF THEIR SALARIES FOR EXPENSIVE, INAPPROPRIATE AND DUAL RETIREMENT COVERAGE.

IT IS IMPORTANT THAT THE PRESENT LAW BE AMENDED TO CORRECT POTENTIAL DUAL RETIREMENT DEDUCTIONS AND COVERAGE. IT WOULD BE INAPPROPRIATE TO PROVIDE FULL, PRESENT CIVIL SERVICE RETIREMENT COVERAGE--EVEN TEMPORARILY--TO FEDERAL EMPLOYEES WHO ARE ALSO COVERED UNDER SOCIAL SECURITY. THIS IS PARTICULARLY TRUE IF WE REMIND OURSELVES THAT THE CIVIL SERVICE RETIREMENT SYSTEM IS AN EXTRAORDINARILY GENEROUS SYSTEM. THE EXCESSIVE RETIREMENT COVERAGE THAT WOULD BE PROVIDED BY CONCURRENTLY PLACING EMPLOYEES UNDER SOCIAL SECURITY AND FULL CIVIL SERVICE RETIREMENT CAN ONLY CONFUSE AND DEMORALIZE THOSE EMPLOYEES BY CREATING FALSE EXPECTATIONS REGARDING THEIR FUTURE BENEFITS.

THE COMPTROLLER GENERAL HAS IDENTIFIED FOUR POSSIBLE APPROACHES TO THE DOUBLE COVERAGE PROBLEM. ONE OPTION IS THAT FEDERAL EMPLOYEES COVERED BY BOTH SOCIAL SECURITY AND CIVIL SERVICE RETIREMENT MIGHT BE GIVEN A TEMPORARY TAX CREDIT FOR THE AMOUNT OF THEIR CIVIL SERVICE RETIREMENT CONTRIBUTIONS. A SECOND OPTION WOULD BE TO COVER EMPLOYEES UNDER CIVIL SERVICE RETIREMENT, BUT RELIEVE THEM OF THE OBLIGATION TO FINANCIALLY CONTRIBUTE TO THE CSRS. THIRD, PARTICIPATION IN THE CIVIL SERVICE RETIREMENT SYSTEM MIGHT BE MADE VOLUNTARY UNTIL A NEW SUPPLEMENTAL RETIREMENT PLAN IS ENACTED. FINALLY, EMPLOYEES COULD BE COVERED SOLELY UNDER SOCIAL SECURITY WHILE A NEW PLAN IS BEING DELIBERATED.

THE ADMINISTRATION STRONGLY OPPOSES GRANTING FEDERAL EMPLOYEES A SPECIAL TAX CREDIT FOR THE AMOUNT OF THEIR RETIREMENT CONTRIBUTIONS. SUCH A TAX CREDIT HAS NO PARALLEL IN THE TREATMENT OF PRIVATE SECTOR EMPLOYEES'

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RETIREMENT CONTRIBUTIONS. AS A MATTER OF EQUITY, WE OBJECT TO PREFERENTIAL TAX TREATMENT FOR FEDERAL EMPLOYEES. ALSO, AS THE COMPTROLLER GENERAL POINTS OUT, THIS OPTION WOULD UNFAIRLY ENABLE EMPLOYEES TO RECEIVE BOTH A TAX CREDIT FOR THEIR CIVIL SERVICE RETIREMENT CONTRIBUTIONS AND A REFUND OF THOSE CONTRIBUTIONS, SHOULD THEY LEAVE THE GOVERNMENT. FINALLY, THIS ALTERNATIVE WOULD PROVIDE IMMEDIATE RELIEF FROM DOUBLE COVERAGE ONLY IF EMPLOYEES ADJUSTED THEIR SALARY WITHHOLDINGS FOR INCOME TAX.

WE ALSO FIND THE SECOND OPTION OBJECTIONABLE. THIS REMEDY WOULD PROVIDE CIVIL SERVICE RETIREMENT COVERAGE, BUT WITH NO EMPLOYEE CONTRIBUTION, AND WOULD REQUIRE THE INDIVIDUAL'S CIVIL SERVICE RETIREMENT BENEFITS TO BE OFFSET BY HIS OR HER ENTIRE SOCIAL SECURITY BENEFIT. SINCE THE SUPPLEMENTAL RETIREMENT SYSTEM THAT MAY EVENTUALLY BE ENACTED IS LIKELY TO DIFFER SUBSTANTIALLY FROM THE CURRENT CIVIL SERVICE RETIREMENT SYSTEM, TEMPORARY CIVIL SERVICE RETIREMENT COVERAGE WOULD BE OF QUESTIONABLE VALUE TO NEW EMPLOYEES.

THE THIRD OPTION THE COMPTROLLER GENERAL MENTIONED--VOLUNTARY PARTICIPATION IN THE CIVIL SERVICE RETIREMENT SYSTEM--WOULD BE ATTRACTIVE ONLY TO EMPLOYEES WITH HIGH INCOMES. CIVIL SERVICE RETIREMENT COVERAGE WOULD BE OF ONLY LIMITED VALUE DURING THIS TRANSITION PERIOD. DOUBLE CONTRIBUTIONS WOULD DISCOURAGE PARTICIPATION BY LOWER-INCOME EMPLOYEES, WHO ARE LIKELY TO BE RELATIVELY YOUNG AND LESS CONCERNED ABOUT PREPARING FOR THEIR FINANCIAL SECURITY IN RETIREMENT.

THIS BRINGS US TO THE LAST OF THE FOUR POSSIBILITIES DISCUSSED BY THE COMPTROLLER GENERAL: COVERING POST-1983 EMPLOYEES SOLELY UNDER SOCIAL SECURITY

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UNTIL THE NEW SUPPLEMENTAL PLAN IS IN PLACE. EXCLUDING THE AFFECTED EMPLOYEES FROM CIVIL SERVICE RETIREMENT COVERAGE AND COVERING THEM UNDER SOCIAL SECURITY ALONE WOULD NOT SIGNIFICANTLY ENDANGER THEIR FINANCIAL SECURITY IN THE INTERIM PERIOD BEFORE ESTABLISHMENT OF THE NEW SUPPLEMENTAL RETIREMENT PLAN. THIS IS TRUE BECAUSE, EVEN IF THEY WERE COVERED UNDER THE CIVIL SERVICE RETIREMENT SYSTEM, FORMER EMPLOYEES REHIRED BY THE GOVERNMENT AFTER A BREAK IN SERVICE WOULD HAVE TO WORK FOR AT LEAST A YEAR BEFORE THEY WOULD BE ENTITLED TO A NORMAL ANNUITY BASED ON THEIR PREVIOUS SERVICE. NEW EMPLOYEES WOULD HAVE TO WORK FOR AT LEAST 5 YEARS BEFORE GAINING TITLE TO AN ANNUITY. EVEN NEW EMPLOYEES WOULD HAVE TO WORK AT LEAST 18 MONTHS BEFORE THEIR SPOUSES WOULD BE ENTITLED TO SURVIVOR ANNUITIES BASED ON THE EMPLOYEES' DEATH IN SERVICE. IN ANY EVENT, WHEN A SUPPLEMENTAL PLAN IS CREATED, WE WOULD HOPE AND RECOMMEND THAT EMPLOYEES BE ALLOWED TO PURCHASE RETROACTIVE CREDIT FOR THE PERIOD PRECEDING ENACTMENT OF THE SUPPLEMENTAL PLAN.

WE RECOGNIZE THAT THIS OPTION MAY CREATE SOME CONCERN THAT THE LOSS OF INCOME TO THE CIVIL SERVICE RETIREMENT FUND FROM NEW EMPLOYEES WOULD CREATE FINANCIAL PROBLEMS IN THE FUTURE FOR THE FUND. FRANKLY WE THINK THIS CONCERN IS MISDIRECTED, SINCE ANY FINANCIAL PROBLEM FOR THE FUND WOULD ARISE ONLY MANY YEARS IN THE FUTURE. NEVERTHELESS, WE WOULD BE WILLING TO CONSIDER A REQUIREMENT THAT THE GOVERNMENT CONTINUE TO MAKE CONTRIBUTIONS TO THE CIVIL SERVICE RETIREMENT FUND DURING THE TRANSITION PERIOD IN THE SAME AMOUNT IT WOULD HAVE MADE HAD THE NEW EMPLOYEES BEEN COVERED.

CONCERNS HAVE ALSO BEEN RAISED THAT EMPLOYEES MIGHT BE DENIED CERTAIN BENEFITS, SUCH AS DISABILITY, ANNUITIES AND SURVIVOR ANNUITIES FOR THEMSELVES OR THEIR DEPENDENTS, WHICH THEY MIGHT OTHERWISE BE ELIGIBLE FOR DURING THE PERIOD WHILE

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THE NEW PLAN IS BEING DEVELOPED. HERE AGAIN, WE WOULD BE WILLING TO CONSIDER SOME ARRANGEMENT TO ENSURE PROTECTION FOR THESE INDIVIDUALS.

IN SUMMARY, WE BELIEVE THAT EXCLUSION FROM CIVIL SERVICE RETIREMENT COVERAGE OF FEDERAL EMPLOYEES WHO WILL BE COVERED BY SOCIAL SECURITY IS THE MOST APPROPRIATE SOLUTION TO THE DOUBLE COVERAGE PROBLEM. WE ARE HOPEFUL THAT A NEW SUPPLEMENTAL RETIREMENT SYSTEM WILL BE ENACTED SOON FOR THOSE FEDERAL EMPLOYEES WHO WILL BE COVERED BY SOCIAL SECURITY STARTING IN 1984. THE ADMINISTRATION HOPES THAT THIS NEW SUPPLEMENTAL RETIREMENT PLAN BE IN PLACE BY 1985. WE ARE EAGER TO ASSIST THE MEMBERS AND COMMITTEES OF CONGRESS WITH TECHNICAL SUPPORT FOR LEGISLATION TO REFORM THIS IMPORTANT ITEM OF PUBLIC BUSINESS.

THANK YOU FOR THE OPPORTUNITY TO DISCUSS THIS PROBLEM. I WILL BE HAPPY TO ANSWER YOUR QUESTIONS.

Federal Employees Coordinating Committee

STATEMENT OF

G. JERRY SHAW

CHAIRMAN

FEDERAL EMPLOYEES COORDINATING COMMITTEE

TO THE

COMMITTEE ON POST OFFICE

AND CIVIL SERVICE

U.S. HOUSE OF REPRESENTATIVES

HEARINGS ON AN INTERIM RETIREMENT PROGRAM

FOR FEDERAL EMPLOYEES

SEPTEMBER 20, 1983

Mr. Chairman, Members of the Subcommittee, I appreciate the opportunity to present the views of the Federal Employees Coordinating Committee and its member organizations. The FECC represents approximately a dozen federal employee organizations representing a wide range of government workers. Many of our members work in departments and agencies particularly concerned about the effects of the recently enacted Social Security Amendments. The temporary dual coverage by Social Security and existing federal retirement pension systems, mandated by the PL-98-21 will have a direct dollars and cents effect, as well as an indirect effect on our membership.

Adverse Effects of Social Security Amendments

Should Congress fail to enact legislation to eliminate the built-in disadvantages and inequities of the Social Security Amendments on federal employees, the consequences will be severe. Recruitment and retention problems, already endemic in many federal agencies, will become even more serious, as pay and benefits to new employees are affected. Simultaneously the federal government's comparative disadvantages in recruitment becomes more acute with the economic recovery. Private employers will not only be increasing their hiring, but offering higher pay and benefits.

Moreover, the effects of the Social Security Amendments are not restricted to newly hired federal employees. Difficulties in recruiting qualified new employees, and increased employee

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attrition have direct effects on agency workloads, efficiency and morale. The ability of federal managers to carry out their assigned responsibilities will be adversely effected as will their job satisfaction and their commitment to a civil service career.

These problems faced by existing federal employees are compounded by the knowledge that the future of the pension programs to which they themselves have contributed during their federal careers is itself in doubt. Federal employee confidence in existing federal pension and benefit programs is already at an all time low. The adoption of the Social Security Amendments only served to futher erode this confidence at a time when federal employees are already witnessing a mass exodus of their colleagues to the private sector.

Lastly, the Social Security Amendments will have direct budgetary implications. At a time when all Americans are concerned about the cost of government, greater difficulties in recruiting and retaining workers with specialized or highly technical abilities has already necessitated the payment of special pay rates to many existing federal employees, many of which I might add, are members of the FECC. The exacerbation of recruitment and retention problems due to dual coverage may require payment of higher special pay rates to greater numbers of individuals.

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Legislative Objectives

These and similar effects of the Social Security Amendments suggest three distinct objectives faced by Congress in the near term.

First, and most important, a retirement system for new employees must be designed and implemented without delay. The longer this is postponed the more serious the problems will become. No temporary stopgap measure designed to alleviate current problems will satisfy this need.

Second, a solution must be found to the immediate problem caused by dual coverage that will eliminate the basic inequity that would be suffered by new employees forced to contribute to two pension systems. These new employees can expect to contribute some half a billion dollars to the Civil Service Retirement System and other systems while obtaining something less than three and a half million in benefits during the same period. To quote the recent General Accounting Office study of the problem,

"Requiring to temporarily contribute to both systems appears to be an inequity. The dual contribution will reduce employee's take home pay if the situation is not remedied by Congress."

Third, an effort must be made to minimize the general damage to the federal government, its effectiveness, its efficient operation, and the morale of its employees. The retention and recruitment problems must be addressed head-on.

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Alternatives

Several legislative alternatives have been proposed to address these last two legislative objectives: eliminating the inequity and minimizing the damage done by the Social Security Amendments. The three most widely discussed alternatives have been (1) to exclude new employees from Federal Retirement Systems coverage, either universally, or on a voluntary basis; (2) to institute some form of tax credit that would reimburse new employees for the increased financial burden of dual coverage; or (3) alternatively to develop a Social Security offset formula while providing temporary Federal Retirement Systems coverage without employee contributions.

None of these three alternatives, nor any other with which I am familiar, are entirely satisfactory.

The first alternative, to exclude new employees from coverage under the current federal pension program, would of course eliminate the direct financial inequity to be borne by new employees. However, this alternative also eliminates the potential personnel recruitment benefits of inclusion under such programs. Also, a simple exclusion of new employees from the current federal retirement system would further strain the financially strapped federal program. New employees who otherwise would have been able to take advantage of Federal Retirement Systems benefits would be substantially penalized. Creating a different kind of inequity.

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Like the Federal Retirement Systems exclusion alternative, tax credit arrangements, which would reimburse new employees for their contributions to federal retirement benefit programs, would also eliminate the direct financial inequities of dual coverage. Such an alternative would also benefit the financially strapped existing federal retirement benefit programs. However, for many new employees, earning entry-level wages, the possible delay in reimbursement pointed out in the GAO report could be an important consideration in joining the federal government. Though the federal government would be alleviated of any substantial administrative burden, it would do so at the expense of new employees. These disadvantages will doubtlessly be reflected in recruitment and retention.

The last alternative, involving the Social Security offset, has the fewest disadvantages. This alternative would provide new federal employees coverage under both the Federal Retirement Systems and the Social Security Systems, while at the same time eliminating the direct financial impact on the employee. Moreover, this arrangement would provide comparable disability and death benefits coverage for the new employees while at the same time partially protecting the financial health of the existing federal retirement programs through agency-only contributions. Nonetheless, the Social Security offset arrangement will result in administrative burden which would be avoided under the tax credit scheme.

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Obviously, none of the alternatives available is completely satisfactory, underscoring the need for Congress to address the more important problem of overhauling existing retirement benefit programs.

Of the alternatives available, however, the FECC prefers the Social Security offset approach.

Recommendations

Whichever alternative is agreed to by the Congress, the FECC feels such a plan should contain five elements:

1. New employees should be reimbursed for any direct financial penalties of dual coverage in a timely fashion.
2. The financial integrity of existing federal retirement benefit programs must be insured by Congress, and the lack of new employee contributions not become a new excuse for OPM to unleash a further publicity barrage about how the Federal retirement program is "breaking" the Government.
3. Any new retirement system for new employees must be a fair and equitable one.
4. Lastly, new employees should be completely aware of the temporary arrangements made to accommodate their entry into the U.S. government. The Office of Personnel Management should be instructed by the Congress to inform new employees both of the temporary nature of the retirement system under which they enter, and the specific benefits to which they would be entitled pending Congress's work on a new Federal Retirement System.

Thank you very much.

TESTIMONY OF
FUND FOR ASSURING AN INDEPENDENT RETIREMENT (FAIR)
before the
COMMITTEE ON POST OFFICE & CIVIL SERVICE
U. S. HOUSE OF REPRESENTATIVES
September 20, 1983

Mr. Chairman. On behalf of the President and Chairman of the Board, Vincent Sombrotto, we appear here today as representatives of FAIR. Recently, the 26 member organizations voted unanimously to continue FAIR as a voluntary coalition of unions and employee organizations concerned with legislative issues affecting all active and retired federal and postal employees. At its June 7, 1983 Board of Directors meeting, new officers were elected: Vincent Sombrotto, Chairman of the Board and President; Kimberly C. Parker, Secretary, and Jerry Klepner, Treasurer. My name is Jerry Klepner. With me this morning are Kimberly C. Parker, Secretary of FAIR, and George Gould, Chairman of FAIR's Legislative Committee.

We are here today at your invitation to discuss FAIR's position on the situation facing new federal and postal employees hired on or after January 1, 1984. Under the present law, they will be required to pay 7% into Civil Service Retirement and an additional 7% into Social Security.

Mr. Chairman, we want to thank you and other members of the Committee for your farsighted approach in initiating studies to compile the necessary information and actuarial data to develop a long term solution to mandatory social security coverage for new federal and postal employees.

As a coalition representing federal and postal employees, we anticipated problems that could arise if the Social Security coverage was extended to new government employees. During the debate on the Social Security bill this year, on many occasions we took the opportunity to express our concerns that there would be a dichotomy between new and present employees. That situation becomes a reality on January 1, 1984.

If a solution can be developed to resolve this dichotomy, we as a coalition of 26 federal and postal unions and employee organizations believe that any such solution must meet certain tests to be viable, workable and acceptable.

And, if a solution is indeed going to be enacted into law, it is essential that there be a consensus by all involved parties.

To reach that consensus it is necessary to thoroughly communicate. That is why we appreciate these hearings which give us the opportunity today to work with you and your staff on this issue.

Given that opportunity, we would like to discuss briefly some tests that must be met if a solution is to be achieved. These tests are consistent with FAIR's position since its

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historical perspective.

First, it is essential that all post-1983 hires be covered by the Civil Service Retirement System. Under present law these employees are covered by that system. We would not support any legislation that would remove them from the Civil Service Retirement System or leave them in limbo, even for a relatively short period of time.

Second, contributory funding for the Federal retirement trust funds must continue. It is essential that there be no interruption and no reduction in those contributions. Continuing full contributions insure that all options remain available, and insure the financial solvency and integrity of the Federal retirement trust funds.

Third, there must be equity between new employees and present employees. Inequities in contribution levels could result in personnel problems, declining morale, and drops in productivity. To have two employees at the same pay level, doing the same job and yet one contributing 7% toward Civil Service Retirement, and the other contributing 7% to Civil Service Retirement and 7% to Social Security, is inherently inequitable.

The government, to work effectively, must be able to attract and retain qualified employees. As employee and retiree organizations, we are concerned with the welfare of current employees and retirees whom we represent.

We are also the organizations who will be representing

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these new employees. We are concerned that they be treated fairly and that there be no fragmentation of the federal workforce.

Mr. Chairman, we welcome the opportunity to work with you and your staff to develop a solution to the dichotomy between new and current federal and postal employees.

We will be more than happy to answer any questions you may have.



NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
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STATEMENT OF L. J. ANDOLSEK, PRESIDENT
NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
BEFORE THE
HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE
ON THE
RETIREMENT CONTRIBUTION REQUIREMENTS OF POST-1983 FEDERAL EMPLOYEES

September 20, 1983

I am L. J. Andolsek, President of the National Association of Retired Federal Employees, commonly known as NARFE. I am pleased to appear before this Committee on behalf of our half-a-million dues paying members, all of whom are, or soon will be, dependent on the Civil Service Retirement Fund as the major source of their retirement income. We commend you for holding this hearing on the effects of requiring future Federal employees to contribute to both the Civil Service Retirement System and the Social Security System, and appreciate the opportunity to present our views. NARFE is a member organization in the FAIR coalition, and although the views we are presenting today are our own, they are consistent with the basic principles outlined by that 25 member coalition.

Mr. Chairman, the 63 year old Civil Service Retirement System is a testament to the basic policy that employees of the Federal Government deserve a retirement system sufficient to meet their financial needs when they retire from the active workforce. As we approach the threshold of mandatory Social Security coverage for post-1983 Federal hires, we must ensure that no breach occurs in that longstanding commitment to the staff retirement system.

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Under existing law, both current and future career employees are automatic participants in the Civil Service Retirement System, and NARFE is unalterably opposed to any legislative action which would eliminate or interrupt that full workforce participation. During the 20th Century, this nation has embraced a policy of encouraging employers to establish staff retirement plans for the protection of employees during their careers and for providing post-career income based on years of service by granting favorable tax treatment of employer contributions to those systems. For the Government itself to dismiss this policy by allowing even a temporary breach to occur in retirement coverage for new Government employees is inconsistent and unfair. Moreover, for the Government's top personnel officer to propose excluding new employees from the existing system while Congress works to establish a supplemental retirement program which, in his words, "may eventually be enacted" is unbelievable.

The systems which stabilize society and provide a framework for the protection and progress of our nation and its citizens are based on continuity.

The work of Government and indeed the business of life is always undergoing transition. Sincere efforts must constantly be made to eliminate inevitable duplications. However, in some situations a degree of duplication is essential to ensure both continuity and flexibility.

In an effort to gain support for increases in military spending, President Reagan referred to a "window of vulnerability" that would occur if we did not continue funding weapons systems based on current technology at the same time we develop new technologies for the future. We do not claim to be defense experts; however, we are retirement experts and NARFE can assure you that if the Administration succeeds in exempting future employees from participation in the Civil Service Retirement System, even temporarily, it will open a window of vulnerability that will never be closed.

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Mr. Chairman, all employees of the Federal Government must be participants in the staff retirement system whether it be under the total retirement program available to past and current employees, or a yet to be developed supplemental program of benefits coordinated with Social Security for future employees. Until such a program is in place, however, the post-1983 employees must be included in the existing program. If the choice is between a lapse in retirement coverage or full employee contributions to both Federal retirement and Social Security, NARFE must opt for the latter.

As an organization representing former employees from all levels of government, including management and the highly technical, we fully recognize and have voiced concern about the recruitment problems that could result if new employees are required to contribute 14% of pay towards their retirement security. However, it would be extremely difficult to attract highly qualified candidates for Federal employment if we did not offer any retirement system, even for a short period of time, to compete with those available from private sector employers. A new survey by the U. S. Department of Labor found that 84% of full-time workers in large and medium size private companies are covered by private retirement plans as well as Social Security, and in most cases those plans are financed totally by the employer.

We also recognize that morale problems could result from inequitable treatment of current and future employees. Understanding that modifications may be necessary to the amounts of funding derived from each of the three current sources -- employees, employing agencies, and the Government -- does not change the basic premise that those funds must continue to flow into the existing Federal Retirement System and that new employees must continue to be covered by that System. It is presently the one and only retirement system of the Federal Government.

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A number of proposals have surfaced which are consistent with the goals of continued funding and continued coverage that provide enough flexibility to offset any inequities that could arise from requiring new employee participation in both systems. Legislation you introduced to provide a tax credit for employees' contributions to the Federal Retirement System would address many concerns in these areas, although we recognize the practical problems facing enactment of such a plan. As various temporary measures are considered, it is critical that basic coverage in the system not be changed to achieve a short term solution. There can be no lapses in coverage or funding. This is the only way to assure that Congress will be able to consider a full range of options for a supplemental program, when all of the data from the Congressionally approved studies currently underway is available.

Mr. Chairman, NARFE commends you for your efforts to resolve the conflicts which will face the Federal retirement and personnel management systems next year. We look forward to working with you and your staff on addressing them in a temporary fashion and in the future development of a fair supplemental retirement plan for Federal employees hired after 1983. I would be happy to respond to any questions you may have.

STATEMENT OF

ROBERT M. TOBIAS
PRESIDENT
NATIONAL TREASURY EMPLOYEES UNION

TO THE

COMMITTEE ON POST OFFICE
AND CIVIL SERVICE

HON. WILLIAM FORD
CHAIRMAN

HEARINGS ON THE EFFECT OF
REQUIRING NEW FEDERAL EMPLOYEES
TO BE TEMPORARILY COVERED
BY SOCIAL SECURITY AND THE
CIVIL SERVICE RETIREMENT SYSTEM

SEPTEMBER 20, 1983

WASHINGTON, D.C.

On behalf of the 120,000 Federal employees and retirees represented by the National Treasury Employees Union, we appreciate this opportunity to submit our views on the effect of requiring new Federal employees to be covered by both social security and the civil service retirement system.

The issue of how to alleviate the large financial burden that will be placed on Federal employees hired on or after January 1, 1984 due to their inclusion under the Social Security System is one that must be addressed. We commend you, Mr. Chairman, for the leadership and responsibility you have shown in seeking a rapid legislative solution to this problem.

Let us state from the outset that we view this issue as critical not just as an immediate concern, but for the long-term retirement security of Federal employees. During the debate earlier this year on the Social Security Amendments of 1983 (now Public Law 98-21), we opposed the inclusion of new Federal and postal employees under social security for numerous reasons. We were primarily concerned about the effects of this change upon the future solvency of the current civil service retirement system and upon the morale of the workforce where workers performing the same job would be paying different amounts for their retirement. When the law was enacted, we were told that Congress was committed to ensuring the financial security of civil service retirement and of relieving new workers of the burden of paying into both systems.

The time has come for Congress to make good on its commitment. On January 1, 1984, newly hired Federal and postal workers will pay approximately 14 percent of their gross salaries in social

security taxes and civil service retirement contributions. In addition, the Administration has endorsed a plan which, we believe, would disrupt the continuity of funding to the civil service retirement system.

In Senate hearings last week, Office of Personnel Management Director Donald J. Devine expressed the Administration's support for removing new employees totally from the civil service retirement system. Under this option, the employees would only pay into social security and would be allowed to purchase retroactive coverage in the new supplementary retirement plan that will be developed.

Having stated this position, however, the Director then went on to say that the Administration would be willing to consider requirements that the government continue to make contributions to the civil service retirement fund and to provide disability and survivor protection to these workers during that time. While we are glad that the Administration at least recognizes some of the problems associated with its recommendation, we cannot support this position.

It is not the fault of future Federal employees that Congress chose to cover them under social security while no supplementary retirement is in place. Given the complexity of developing such a retirement system and the extreme care and deliberation that must be taken before it is enacted, no one can say for sure exactly when the system would be in place. We believe that in order to guarantee the continuation of funding into the present system and protect employees to the fullest extent possible, a definite answer must be reached. The responsibilities of the

government and the employees must be clearly articulated and enacted. Allowing new Federal and postal workers to remain covered only by social security for an indefinite period is simply unacceptable.

We believe that another solution must be found. The General Accounting Office listed five options that could be pursued. One of these -- the idea of granting new employees a tax credit for their civil service retirement contributions -- has a great deal of merit, but it has drawn significant opposition to the point where it probably cannot be enacted.

We believe that the best solution available would encompass the following features:

- all new employees would remain under the civil service retirement system until a new supplementary plan is enacted when they would be placed under that system;
- new employees would pay the 6.7 percent FICA tax;
- new employees would also pay 1.3 percent of the contributions to the civil service retirement system; this would be done to ensure that all workers are paying the same amount of their salaries toward retirement;
- the government would continue to pay 7 percent for each employee into the CSR fund;

- the remaining 5.7 percent of the employees contribution would be paid out of general revenues to be amortized over a thirty-year period.

We believe that this system offers the best available means to deal equitably with the problem at hand. The GAO estimates that employee contributions by new hires in 1984 would total about \$470 million. Deducting the 1.3 percent that the employees would pay, means that the government would amortize the remaining amount to be paid in authorized annual installments over 30 years. There is precedent for this in that Congress chose to handle part of the funding for the present civil service retirement system in this fashion. This offers a low-cost alternative to the problem.

In addition, our proposal ensures fairness by requiring that all employees pay the same amount for retirement. This would alleviate any problems with administration and morale that would certainly develop under present conditions.

Finally, this solution would fulfill Congress' commitment to maintain the funding of the present civil service retirement system. Eventually, the long-term issue of what happens when employee contributions to the fund diminish will have to be addressed. But in the interim, the stability of the system during the period when a supplementary plan is developed will be ensured. We urge the Subcommittee to adopt our proposal.

Mr. Chairman, this concludes my prepared remarks. We would be happy to answer any questions the Committee may have.

STATEMENT BY
THE NATIONAL FEDERATION OF FEDERAL EMPLOYEES
BEFORE
THE HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE
ON
DUAL RETIREMENT CONTRIBUTIONS FOR FEDERAL EMPLOYEES
HIRED AFTER DECEMBER 31, 1983
SEPTEMBER 20, 1983

Mr. Chairman: We appreciate the opportunity to discuss the impact of social security and civil service retirement coverage on Federal workers hired on or after January 1, 1984. The issue is of pressing importance to current as well as future Federal employees and retirees.

Employees hired by the Federal Government after December 31, 1983 and employees who experience a break in service of more than one year, will contribute to and be covered by both social security and civil service retirement. Their total payroll deductions for retirement purposes will be 14 percent (7 percent for social security and 7 percent for civil service retirement). These deductions, coupled with the usual payments for Federal, State, and local taxes and health insurance, will place an extraordinary financial burden on new hires.

In 1982, Federal agencies spent \$93 million in special pay rates to recruit and retain qualified people in certain occupations. There is little argument that the Federal Government will experience even greater recruitment problems once the 14 percent deduction is implemented.

A partial, long-term solution will probably come in the form of a completely new retirement system for Federal workers covered by social security. The new system, which will either be integrated with social security or an add-on to it, will almost surely require less in employee payroll contributions than 14 percent. But it is doubtful the new system will be in place before late 1985.

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In the meantime, Congress must take steps to alleviate the financial burden on new employees and to facilitate the Government's recruitment efforts. In doing so, however, you must ensure that the following criteria are met.

First, there should be no disruption of revenue to the current Federal retirement programs. The General Accounting Office, as you know, estimates that new hires will contribute nearly \$500 million over the next two years to the various Federal pension systems. Should these funds be cut-off, the systems' financial posture would be weakened and benefits could be jeopardized for current and future retirees. This must not be allowed to happen.

The second test that should be met is one of equity between present employees and those hired after this year. Current civil service workers pay 7 percent of salary toward Federal retirement and 1.3 percent toward Medicare, for a total payroll deduction of 8.3 percent. In order to avoid dissension between present and new employees, and to ensure a certain degree of fairness between the two groups, civil servants hired after this year should also contribute 8.3 percent of salary toward retirement or a figure as close to that as possible.

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Several proposals are now being discussed as possible remedies to the problems that will be created by fully covering new employees with both social security and Federal retirement. One proposal that appears to meet our criteria would require new Federal employees to contribute the standard amount to social security (7 percent of the first \$37,500 in salary) and 1.3 percent to Federal retirement, for a total payroll deduction of 8.3 percent. In return, new civil service workers would be part of the current Federal retirement system until a new annuity program is designed and implemented. With respect to funding, Federal agencies would continue to make their contributions on behalf of new workers. In addition, however, a lump sum would be authorized to be paid to the Federal retirement systems by the Federal Government. This would make up the 5.7 percent contribution for which employees' would no longer be responsible.

NFFE could support this proposal. Yet, we could also support others should they meet the criteria summarized above. We simply urge Congress to recognize the severity of the pending problem and to work with all due speed to implement a viable solution.

This concludes my statement. I will be happy to answer any questions.



NATIONAL ASSOCIATION OF LETTER CARRIERS AFL-CIO

VINCENT R. SOMBROTTO
PRESIDENT

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TESTIMONY OF
FRANCIS J. CONNERS, VICE PRESIDENT
NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL-CIO

BEFORE THE
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES

SEPTEMBER 20, 1983

My name is Francis J. Conners, Vice President of the National Association of Letter Carriers. With me today is George Gould, Legislative Assistant to NALC President Vincent Sombrotto. President Sombrotto could not be here today due to a long standing commitment, but he appreciates your invitation, Mr. Chairman, to participate in these hearings.

The National Association of Letter Carriers, AFL-CIO, a union representing approximately 252,000 Letter Carriers, of which 60,000 are retired Letter Carriers, is the exclusive bargaining agent for city delivery carriers employed by the U. S. Postal Service. We appreciate the opportunity to appear today before this Committee to discuss our concerns about the situation that will face new postal/federal employees beginning January 1, 1984. On that date, newly hired postal/federal employees will begin paying an additional 7% of their wages into Social Security along with a 7% contribution to Civil Service Retirement.

Mr. Chairman, let me personally thank you and the Members of your Committee for your continued concerns and commitment to the solvency of the Civil Service Retirement System and maintenance of benefit levels. Your Committee's long standing opposition to the proposed budget cuts over the past three years is greatly appreciated by all postal/federal employees and retirees. Without your firm actions, Civil Service benefits would have been severely reduced, contributions

increased by 57%, and the retirement age raised to 65.

These hearings today show that continued concern.

As a result of the passage of H.R. 1900 earlier this year, post-1983 hires of the federal government will be covered by Social Security. They will be required to pay 5.7% into the Old Age and Survivors Disability Insurance fund as well as 1.3% into the Medicare fund. Because they continue to be covered by the Civil Service Retirement System, they will contribute 7% into this system.

A payment of 14% of wages into two retirement programs could cause problems for the government in recruiting and retaining qualified employees. This is one of the problems we pointed out to the Congress during the consideration of the Social Security bill. Take for example two Letter Carriers working side-by-side, doing the same job and receiving the same pay under the National Collective Bargaining Agreement. A Letter Carrier hired in December, 1983, would have approximately \$1,660 deducted for retirement and Medicare. A Letter Carrier hired on January 1, 1984 would have \$2,800 deducted for Civil Service Retirement and Social Security. This situation could cause a dichotomized workforce within the Letter Carrier craft.

If a temporary solution to this problem can be achieved before January 1, 1984, we are willing to assist the Committee in its efforts. However, for the NALC to support any possible solution, it must meet certain criteria that

our union has subscribed to since the issue of Social Security coverage was first raised.

First, new employees must not be removed from coverage of the Civil Service Retirement System. It is necessary that post-1983 hires be continued in the Civil Service Retirement System until such time as a supplemental retirement system is developed for them. Continuing coverage gives new hires minimum assurances of a retirement system and does not leave them in limbo without any retirement system. While their future benefits are uncertain, it at least insures them of retirement coverage if Congress does not act.

Second, a full contribution of 7% to the Civil Service Retirement fund must be made either by the employees and/or on behalf of the employees. This insures full funding of the system and that there will be no reduction or interruption in the contributions. Such action also insures the solvency of the retirement fund and in no way threatens promised benefits to current employees.

Third, as mentioned earlier, there should be equity between the contribution levels of present employees and post-1983 hires. The huge gap in dollars deducted for retirement benefits could cause problems not only in the workforce, but between individuals. As time goes on, such inequity could only become more severe. We are concerned that all employees our union currently represents and will represent are treated fairly and that there be no dichotomy of the workforce.

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Mr. Chairman, let me again thank you for your continuing concerns on behalf of all postal/federal employees -- both present and future. We also look forward to working with you and your Committee on a possible solution to double coverage of new hires.

I will be happy to answer any questions you or other members of your Committee may wish to ask.

AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES

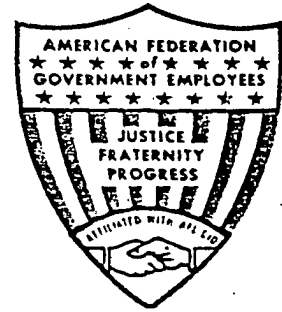
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STATEMENT OF

JOHN STURDIVANT
EXECUTIVE VICE PRESIDENT

AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES
(AFL-CIO)

BEFORE THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE
U.S. HOUSE OF REPRESENTATIVES

ON

DUAL RETIREMENT CONTRIBUTIONS

SEPTEMBER 20, 1983

The American Federation of Government Employees (AFGE), AFL-CIO, is pleased to have the opportunity to testify before the the Post Office and Civil Service Committee. AFGE represents over 700,000 employees throughout the Executive Branch of government.

We are pleased to see this Committee address the rather absurd situation brought about by the passage of H.R. 1900, the Social Security Reform Bill. On January 1, 1984, new federal employees will be (barring any change in current law) contributing 14% for retirement purposes -- 7% to the Civil Service Retirement System, 5.7% to Social Security and 1.3% to Medicare. (For 1984, .3% of the Social Security contribution would be allowed as a tax credit for income tax purposes.) The new employees will be contributing this 14% of their salary without having any clear idea what their ultimate retirement benefits will be since there currently is no supplemental retirement plan in place for these employees.

Below we illustrate the size of the annual retirement contribution, at current pay, for each of the GS levels, 1 through 12:

GS LEVEL	STEP	ANNUAL PAY	ANNUAL RETIREMENT CONTRIBUTION
1	5	\$ 9,831	\$1,376
2	5	10,703	1,498
3	5	12,065	1,689
4	5	13,541	1,896
5	5	15,153	2,121
6	5	16,889	2,364
7	5	18,767	2,627
8	5	20,783	2,910
9	5	22,956	3,214
10	5	25,283	3,539
11	5	27,776	3,889
12	5	31,332	4,386

Of course, one would have to deduct health insurance, federal, state, and local income taxes before one could estimate the take home pay for these federal workers.

As the General Accounting Office stresses in its report and the above table indicates, the ability of the federal government to recruit and retain quality employees will be severely reduced given this level of retirement contribution. We cannot but add at this point that the pay caps, retirement benefit reductions, increases in the health premiums, deterioration of working conditions, and constant belittlement of the worth of federal employees has also affected the governments' ability to attract top notch workers. These retirement contributions will make

worse the already existing entry level pay gaps between the private sector and the federal sector. (See attachment.)

The members are well aware that this union opposed bringing new federal employees under Social Security. Our opposition was shared by virtually all federal employees. However we were not able to prevail on this issue.

When it became clear that new employees were to be brought under Social Security, we supported and were happy to see the Senate pass the amendment offered by Senator Russell Long (D-LA) to H.R. 1900 which would have delayed coverage of new federal employees until a supplemental retirement system was in place. Unfortunately, the Senate was not able to prevail in Conference with the House on the Long admendment. If the Long admendment had prevailed we would not be facing the current abysmal situation.

Although we recognize the political difficulties in passing a provision similar to the Long admendment, we still believe that removing new employees from Social Security until a supplemental retirement system is in place is the best answer to the current problems.

Without this favored solution, it becomes very difficult to find an appropriate solution to the current situation. This difficulty stems from the fact that we are trying to remedy the contribution aspect of the retirement system for new employees without having any clear idea what the benefit structure will eventually be. The GAO Report states, "... we assumed the new

supplemental retirement system will retroactively cover all periods of service by new employees subsequent to January 1, 1984." New employees, considering the track record of promises made to federal employees, may very well wonder whether this "assumption" is valid.

THE PROPOSALS EXAMINED BY GAO

The criteria offered by GAO for the four proposals it considers is "alternatives which would alleviate adverse impacts on recruiting and retention". We believe that there is another consideration which should be taken into account in attempting to alleviate the dual contribution problem -- namely that equality between current and future employees be maintained. When the supplemental retirement program is under consideration AFGE will be guided by the following principle:

The supplemental system (when combined with Social Security) should provide the same level of benefits as the current system with the same level of contributions from the employee.

In light of this principle, AFGE cannot endorse any of the retirement contribution proposals as currently fashioned by GAO.

The first proposal, to provide new employees with a tax credit for their contribution to the Civil Service Retirement System, would place new hires in a relatively privileged position when compared to current employees. For example consider the hypothetical case of two employees (one current employee and one newly hired 1984 employee) both earning \$40,000

and paying 30% in federal income tax. In this case under this alternative, the current employee would pay \$2,800 to the Civil Service Retirement System, \$495 for Medicare, and \$12,000 in federal income tax for a take home pay of \$24,705. The new employee on the other hand would pay \$2,800 to the Civil Service Retirement System, \$2,172 to Social Security, \$495 for Medicare, and \$9200 in federal income tax (taking into account the tax credit for the Civil Service Retirement System contribution). His take-home pay would be \$25,333 -- a full \$628 more than the current employee. In addition, new employees could also receive a refund of their Civil Service Retirement contribution if they leave government service.

The second option of no Civil Service Retirement coverage, thus no employee or employer contribution to the Civil Service Retirement System, also is flawed. The new employee would have Social Security coverage but would have no defined stake in a supplementary retirement system. The resulting increased insecurity would, again, have adverse impact in the government's recruitment ability. There would also be fairness problems in disability and death situations. It would also have an adverse impact on the finances of the Civil Service Retirement Fund.

The fourth option, of voluntary participation in the Civil Service Retirement System, is merely allowing employees to choose between the current situation which is, as these hearings attest, recognized to be unsatisfactory and the second GAO option which, as we have already argued, is also unsatisfactory. An option to

choose between two unsatisfactory situations is itself obviously --unsatisfactory.

Option three, requiring agency contributions but no employee contributions, also has some problems. By not requiring any contribution from new employees, it fails to show new employees that they have a stake in a supplementary retirement system. If they are guaranteed credit for the years of service in this interim period, it is not equitable to current employees who will be contributing at a higher rate than these new workers or future employees who may be required to contribute to the supplemental retirement plan. It does have the advantage of providing increased coverage to new employees in situations of disability or death. It also aids in the financial status of the Civil Service Retirement Fund, compared to GAO option two, by providing for agency contributions.

AFGE RECOMMENDATIONS

If it is considered impossible to delay Social Security coverage of new employees until a supplemental retirement system is in place, then AFGE would recommend that GAO option three be modified to provide for a 1.3% employee contribution to the Civil Service Retirement System because:

It would achieve a parity of contribution between new and current employees for retirement purposes.

It would assure new employees that they would have full

credit of their years of service toward a supplemental retirement plan in this interim period.

It would provide the Civil Service Retirement Fund with some additional funding.

It would provide new employees with coverage for disability and death benefits comparable with pre-1984 federal employees.

Provisions should, also, be made for the refund or additional contribution in the case where the supplemental system requires a contribution rate that is different than 1.3%. There already exists a precedent for this approach in the way Congress has chosen to handle the post-1956 military service for Civil Service Retirement. We are not persuaded by the protests made by GAO in regard to the administrative complexity of such an approach. We fully recognize that there are some potential administrative problems in this approach but we strongly believe that such problems are secondary to the principles of equity and fairness to federal employees, both current and potential.

We want to thank the Chairman and the Committee for examining this situation and look forward to working with the Committee and its staff to resolve the problem.

ATTACHMENT

Based on March 31, 1983 data supplied by OPM, the relative differences in entry level pay between similarly matched jobs in the private sector vis the federal sector has become alarming. For example:

ENTRY LEVEL DIFFERENCES IN PAY			
<u>OCCUPATION</u>	<u>PRIVATE SALARY</u>	<u>FEDERAL SALARY</u>	<u>% DIFFERENCE</u>
ACCOUNTANTS	\$19,519	\$14,098	38.45%
ATTORNEYS	28,119	20,591	36.55
CHEMISTS	21,365	13,628	56.77
ENGINEERS	25,556	17,431	46.61